

Hitachi and GE to Merge Nuclear Operations

On November 13, Hitachi, Ltd. of Japan and General Electric Co. (GE) of the United States concluded a document of intent regarding a strategic partnership that would pool together their nuclear-related activities on a global scale.

The agreement is aimed at reinforcing both companies' respective activities in the field, and will primarily concentrate on the area of boiling water reactors (BWRs). The two companies will both split off their respective nuclear power operations to establish two new joint ventures (JVs) in the two countries for the integrated management of the construction, maintenance and servicing of nuclear power plants (NPPs). While Japan's Toshiba Corp. will not be participating in the new company this time, GE has decided to maintain its current relationship with that company to jointly develop Economic Simplified BWRs (ESBWRs), as well as continue cooperating in receiving orders for the reactor. (Toshiba recently bought up Westinghouse Electric Co. of the United States so as to shore up its own nuclear power business.)



The new Japan-based JV to be created from the spin-off of Hitachi's nuclear power division will be owned 80% by Hitachi and 20% by GE, while the stakes of the two companies in the new American JV to be created from the spin-off of GE's nuclear power division will be set at approximately 40% and 60%, respectively. Looking forward to the future, the task for the two parent companies now will be to carry out consultations about the particulars of the two JVs' mode of establishment and their manner of operation, with the final contracts solidifying the partnership slated to be drawn up in the first half of 2007.

Currently, Hitachi's nuclear power division boasts a staff of some 2,000 employees, with a yearly revenue of roughly 160 billion yen (\$1.36 billion at \$1=118 yen), while GE's nuclear division has around 1,500 employees and an annual revenue of approximately 120 billion yen (\$1.02 billion). The two new companies will be launched based on comparable scales of operation. The Japanese JV will be responsible for the Japanese domestic market exclusively, while the American JV will be in charge of all other markets worldwide, including the United States. In addition, the two new JVs will also handle the development of next-generation reactors, but not the nuclear fuel business, which fell outside the scope of the partnership agreement announced on the 13th.

On the day of the signing, Hitachi Pres. Kazuo Furukuwa described the two companies' partnership this way: "The size of Hitachi's stake in the new U.S. JV reflects our commitment to compete in the global market. With the market for NPPs worldwide heating up, I reached the conclusion that merging our strategy with GE's would enable us to expand our BWR business. By the year 2020, around 25 new NPPs are to be built in the United States, and I think we can capture around a third of that demand."

Similarly, Rudolph Villa, president of Nuclear Energy-Asia, an arm of GE, stated, "This is a wonderful step for the nuclear power divisions of both our companies. I would like us to develop new reactor types so as to boost our position in the market." He went on to describe the business relationship that GE currently maintains with Toshiba, saying, "Although GE has no

intention of arranging a joint venture with Toshiba, we do have various obligations to that company over the next few years as a business partner, particularly in our ongoing project to design the ESBWRs – and that will not change.” However, he soon qualified his statement, saying that “in the future, though, it is our plan to promote activities together with Hitachi.” Villa went to reject rumors that GE had signed an agreement establishing “any sort of cooperative relationship” with Mitsubishi Heavy Industries (MHI) in the field of nuclear energy.

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